Directorate of Intelligence

~~Secret~~

25X1

Soviet and East European Economic Assistance Programs in Non-Communist Less Developed Countries, 1982 and 1983

25X1

A Research Paper

~~Secret~~

GI 84-10182
November 1984

Copy 442

Page Denied

Directorate of
Intelligence

Secret [redacted] 25X1

Soviet and East European Economic Assistance Programs in Non-Communist Less Developed Countries, 1982 and 1983 [redacted]

25X1

A Research Paper

This paper was prepared by [redacted] Office of Global Issues. This paper has been coordinated with the Department of State, the Defense Intelligence Agency, and the Agency for International Development [redacted]

25X1

25X1

Comments and queries are welcome and may be directed to the Chief, Subversion Analysis Branch, Instability and Insurgency Center, OGI [redacted]

[redacted]

25X1
25X1

Secret
GI 84-10182
November 1984

 25X1

Soviet and East European Economic Assistance Programs in Non-Communist Less Developed Countries, 1982 and 1983

25X1

Summary

Information available as of 14 September 1984 was used in this report.

In the past three decades, the USSR and Eastern Europe have provided nearly $40 billion in economic credits and grants to non-Communist less developed countries. In tandem with military assistance, the USSR and its allies have used their economic aid programs to try to replace Western influence in LDCs, to expand Soviet trade, and to gain access to strategic raw materials. Initially, the USSR gave preference to emerging states that were following a noncapitalist path of development. In the 1960s the program was broadened to include almost any country willing to accept aid. Today more than 70 countries have accepted economic aid from the USSR or its allies.

Soviet economic aid since 1954 has never had the dramatic impact of the military program. It has been far more modest—totaling about $27 billion, as compared with $83 billion for the military. Moreover, the Soviet economic program has been small by international standards. Moscow's disbursements to LDCs over the past few years have accounted for less than 3 percent of all international aid, compared with a US share of nearly 25 percent. Despite the large number of countries which have received Communist economic aid, the program is focused on a few countries along the Soviet border and in the Middle East; Arab and South Asian countries account for two-thirds of Soviet pledges. East European countries, following a similar pattern in their programs, also have concentrated on Arab and Asian recipients.

Since the start of the 1980s, most Soviet and East European economic credits have carried somewhat harder terms. This reflects Communist attempts to minimize the costs associated with the program. The agreements increasingly, for example, call for repayment in hard currency, oil, and other strategic materials. Grants now go almost exclusively to Marxist LDCs such as Afghanistan and Ethiopia. Consequently, the spread between liberal official Western development aid and Communist aid terms has increased. Still, the new Communist credits provide cheaper funds than Western market financing and have enabled Communist countries to compete successfully with Western bidders on lucrative LDC development contracts. Moreover, the Soviets have been more willing than other aid donors to build the large industrial establishments demanded by LDCs, sometimes with little economic justification.

GI 84-10182
November 1984

25X1

During the past few years, personnel exchanges have become an increasingly important part of Warsaw Pact relations with LDCs, and have provided good financial and political returns. Nearly 125,000 Soviet and East European economic project specialists and professionals were in LDCs in 1983, and nearly 15,000 LDC students departed for academic training in Warsaw Pact institutions. The technical services and academic training programs have been broadly based, and Communist countries have personnel agreements with 110 countries, 34 of which have not accepted other forms of Communist aid.

At present, the LDCs employ more than 40,000 Soviet project specialists and professionals. Originally, LDCs financed the services of Soviet personnel under aid agreements. Now, aside from a few doctors and teachers provided on a grant basis, the USSR charges $40,000 to $70,000 a year for each of its specialists. Most are located in oil-producing LDCs, which can pay in hard currency. Because of a skilled labor shortage at home, Moscow is very reluctant to send civilian personnel to LDCs unless they earn foreign exchange.

The academic training program has the potential for significant political payoffs for the Kremlin. In some countries, mostly in Africa and Latin America, it is Moscow's only ongoing activity. Nearly 100,000 students from LDCs have attended Soviet universities and technical schools since the mid-1950s. In Soviet-oriented LDCs, including Afghanistan and Ethiopia, the USSR has available 15,000 local graduates of Soviet military or academic programs who can at least speak Russian even if they do not sympathize with Soviet goals.

25X1

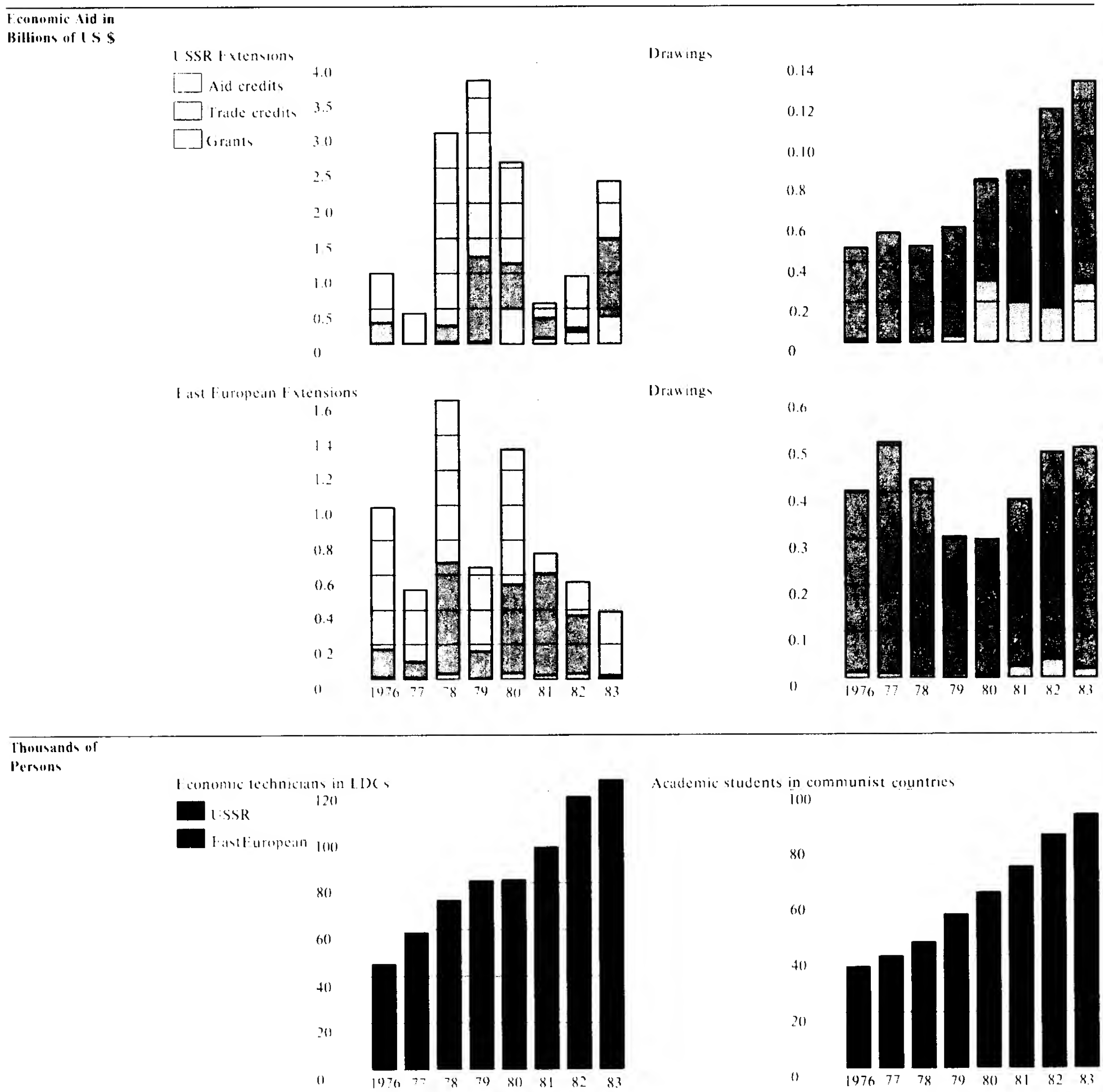
Page Denied

[redacted] 25X1

Contents

	Page
Summary	iii
Preface	v
I. Trends in Soviet and East European Economic Assistance	1
The Record on Commitments	1
The East European Program	3
The Record on Disbursements	5
Economic Technical Services: A Growth Industry	6
Academic Programs: Showing Continued Dynamism	6
The Program Ahead	7
Soviet Credits Still Popular	9
II. Communist Economic Programs: A Regional Analysis	9
Middle East and North Africa: Moscow's Largest Economic Stake	9
South Asia: Deepening Communist Involvement	14
East Asia: Suspicious of Soviet Initiatives	16
The Caribbean and Central America: The Newest Assistance Program	17
South America: Pursuing New Opportunities	20
Sub-Saharan Africa: Heightened Economic Support	22

Figure 1
Warsaw Pact: LDC Economic Aid Programs



303978 10-84

25X1

Soviet and East European Economic Assistance Programs in Non-Communist Less Developed Countries, 1982 and 1983 25X1

I: Trends in Soviet and East European Economic Assistance [1]

Economic assistance has been an important element in Soviet foreign policy in LDCs since Moscow provided its first aid to a few Asian neighbors in the mid-1950s. The USSR has used its aid program to:

- Create and maintain stable ties with LDCs.
- Demonstrate a continuing commitment to countries that have a chosen socialist path to development.
- Secure resources for its own and East European economies.

The Soviet economic aid program has been successful in gaining increased access to the LDCs for Moscow through placement of Communist personnel in key countries, expanded access to strategic commodities, growing hard currency earnings, and, in some cases, increased trade dependency. In addition, economic aid has sometimes led to other relations, including military assistance; access to ports, repair facilities, and airfields in LDCs; and an expanded political presence in some countries through the provision of high-level advisers to ministries responsible for economic affairs. 25X1

The Record on Commitments

Since the start of the 1980s, the Soviet Union has pledged almost $6.5 billion of economic aid to non-Communist LDCs. After a severe dropoff in 1981 and 1982, the program recovered in 1983 when total new commitments approached $2.3 billion. The earlier decline may have reflected a retrenchment made necessary because of increasing demands from all of Moscow's aid recipients. Along with the resumption of the historic level of commitments in 1983, a distinct tier system for countries receiving Soviet aid has materialized. Key elements are: 25X1

- Larger amounts of grant aid and commodity support for Marxist clients.
- Occasional lenient long-term credits for a few traditional partners. 25X1
- Expanding use of trade credits for the majority of LDC recipients. 25X1

Support to Marxist Clients. Moscow made nearly $1.6 billion in new economic commitments during 1982 and 1983 to the Marxist LDCs, bringing total Soviet economic pledges to this group of countries to nearly $5.6 billion over the past three decades (table 1). In 1982, almost all new Soviet commitments went to them. For Afghanistan, Ethiopia, and South Yemen, the USSR and its allies have almost completely displaced bilateral Western aid donors, although significant multilateral funds continue to flow to all but Afghanistan. 25X1 25X1

[1] The data on economic agreements reflect the latest information available and supersede information in our previous publications. They are derived from a variety of sources.

For the purpose of this report, the term *Communist countries* refers to the USSR and the following countries of Eastern Europe: Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. We have also included data on Cuban economic aid extensions to LDCs, because Cuba frequently acts in concert with Warsaw Pact countries and generally supports their political goals through its aid program.

The term *less developed countries* includes all countries of Africa except the Republic of South Africa; all countries of East Asia except Hong Kong and Japan; Malta, Portugal, Greece, and Spain in Europe; all countries in Latin America except Cuba; and all countries in the Middle East except Israel. Data include about $50 million in aid to Kampuchea and Laos, which became Communist in 1975 and are reported on for prior years for historical reasons.

The term *Marxist clients* refers to countries that consider themselves Marxist and that rely primarily or entirely on Communist military support to maintain their power. They are Afghanistan, Angola, Ethiopia, Mozambique, Nicaragua, and South Yemen.

Within the aid context, the terms *agreements, commitments,* and *extensions* refer to pledges to provide goods and services, either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. For *economic aid,* credits with repayment terms of five years or more are included. These credits are designated as "trade credits" if amortization is less than 10 years. The terms *drawings* and *disbursements* refer to the delivery of goods or the use of services 25X1

Table 1
USSR: Economic Aid Extended to Non-Communist LDCs [a]

Million US $

	Total	Marxist States	Non-Marxist States
Total	**26,699**	**5,557**	**21,142**
1954-77	13,501	1,988	11,513
1978	3,002	94	2,908
1979	3,749	530	3,219
1980	2,588	1,168	1,420
1981	580	218	362
1982	965	890	75
1983	2,314	668	1,646
Of which:			
Algeria			250
Ethiopia		265	
Syria			325
Afghanistan		370	
India			140
Pakistan			275

[a] Because of rounding, components may not add to totals shown.

[redacted]

Recent Soviet economic aid agreements with client states have contained some unusual features:

- A $400 million credit to Angola in 1982 for a hydropower project (extended under a 1982 framework agreement that could eventually provide $2 billion in financing) calls for Brazil's participation in construction of the Capanda dam and powerplant, the first instance of a Soviet joint venture with an LDC in a third country.

- The $170 million in aid to Ethiopia financed oil purchases from the USSR for 1983. Moscow has never before underwritten oil purchases by a non-Communist country.

- The $165 million credit extension to Nicaragua provided some $50 million for technical services and project studies, for which Moscow usually requires hard currency on a cash basis. [redacted]

These agreements were politically and strategically motivated and will provide few economic returns in the form of raw materials or foreign exchange, which the USSR usually seeks in its aid agreements. Only the Angolan agreement offers Moscow the prospect of breaking even financially. Such aid, however, deepens LDC ties with the USSR and opens opportunities for Moscow to extract concessions such as port and air facilities in Ethiopia and access to petroleum and strategic materials in Angola and Mozambique. In the case of Nicaragua, Moscow is supporting the first viable Latin American Marxist regime since Cuba changed governments in 1959. This aid also represents the price Moscow must pay to retain its influence in these states. [redacted] 25X1

Commitments to Non-Marxist LDCs. Aid to this group consists principally of long-term credits used to finance major development projects and trade credits to facilitate the purchase of Soviet goods. Trade credits are the most vigorous and fastest growing element of the Soviet economic program in these countries (table 2). Both categories essentially dried up in 1982 as extensive project studies and contract negotiations dragged on with a number of recipients; in 1983, of the $1.6 billion of total Soviet economic aid commitments to non-Marxist LDCs, $1.1 billion represented trade credits to recipients with long-established political, military, or business ties with the Kremlin.[2] Among the major allocations were: 25X1

- $325 million to Syria for thermal power plant construction and commercial aircraft acquisition.
- $200-400 million to Greece for an alumina plant.
- $275 million to Pakistan for a thermal power plant.
- An estimated $250 million to Algeria for railroad construction. The actual value of these credits could be much higher.
- Credits in the $70-80 million range to Argentina, Bangladesh, and Bolivia for equipment purchases.

[redacted] 25X1

[2] Our figure for Soviet trade credits in 1983 is probably understated because we have been unable to ascertain the scope of Soviet credits to Iraq to develop the West Qurnah Oilfields. [redacted] 25X1 25X1

25X1

Sanitized Copy Approved for Release 2011/01/28 : CIA-RDP85S00315R000300010004-5

Table 2
USSR: Trade Credits to Non-Communist LDCs [a]

Million US $

	Total Extended	Trade Credits
Total	**26,699**	**4,975**
1954-73	9,275	980
1974	815	5
1975	1,970	205
1976	1,005	290
1977	435	..
1978	3,002	225
1979	3,749	1,200
1980	2,588	640
1981	580	285
1982	965	50
1983	2,314	1,095

[a] Because of rounding, components may not add to totals shown.

[redacted]

The allocations in 1983 underlined the near-commercial nature of Soviet development activities in this group of countries. About $1.1 billion of the new credits carried 10-year repayments with interest ranging from 4 to 6 percent. These terms, assuming a grace period, barely meet standards for aid as defined by the international community.[3] Although Western donors also expand exports by tying some aid funds to procurement from the donor country, the USSR is devoting almost all of its financing for non-Marxist LDCs to promote sales of Soviet equipment. The proportion of these export-type credits in new Soviet pledges has grown steadily in the 1980s. Moreover, many of the agreements that Moscow concludes with non-Marxist states call for payback in raw materials: the 1983 credit to Greece for an alumina plant will be paid for in alumina. Others are payable in hard currency. [redacted]

[3] Western aid donors use a "grant element" as a common basis for comparing the concessional nature of aid programs under different terms of repayment. A 100-percent grant element is an outright gift, while a 12-year, 2.5-percent loan with a 25-percent grant element qualifies as official development assistance under minimum criteria adopted by the OECD [redacted]

In addition to tightening credit terms, Moscow also has moved to broaden its participation in the implementation of projects undertaken in non-Marxist states. [redacted] Moscow is getting more extensively involved in turnkey projects, under which the USSR manages all phases of project implementation, including letting subcontracts, hiring local labor, arranging for local materials supply, and the provision of equipment and supervisory technical services. Turnkey construction generally is more efficient in LDCs than Moscow's more traditional technique of supplying only equipment and technicians to supervise installation and startup operations. It also requires a far more extensive technical presence. According to the Soviet magazine *Foreign Trade*, turnkey activity accounted for 45 percent of the volume of Soviet assistance in 1982, compared with only 15 percent in 1975. [redacted] 25X1

The East European Program

Our information about East European contracts with LDCs is extremely fragmentary. In many instances we cannot determine whether a contract is a straight commercial deal or one involving East European aid to the Third World country involved in the transaction. In 1982 and 1983, some $3.5 billion in East European–LDC contracts fell into this uncertain area. These contracts include:

- A $185 million Bulgarian contract with Syria for petroleum gas development.
- A $130 million Czechoslovak credit to Syria for a gas treatment plant and pipeline.
- A $100 million Czechoslovak agreement with Iraq to reclaim 13,000 hectares of desert land.
- A $1.5 billion Romanian contract to build houses in Algeria.
- A $1 billion Bulgarian contract with Syria for further gas development.
- A Romanian agreement to assist Turkey with a $500 million power plant. [redacted] 25X1

At least some of these deals may in fact have provided some aid. So far, however, we are able to identify only about $950 million in new East European deals with

25X1

Moscow Defends Its Program

Moscow has become more concerned about its international image as an aid donor. For the first time in 1982, the USSR responded to criticism by Western countries and LDCs of its meager aid performance. At the July 1982 meeting of the UN Economic and Social Council, the Soviet Ambassador to the United Nations announced that net Soviet aid disbursements to LDCs in the period 1976-80 amounted to 30 billion rubles ($40-45 billion at average annual exchange rates), and accounted for 1.3 percent of Soviet GNP in 1980.

According to our estimates, Soviet gross disbursements could have reached at least half of the claimed level if, in addition to some $3 billion in aid to non-Communist LDCs, Moscow also included the following components:

- *More than $13 billion of aid to Cuba (most of it in the form of subsidies that do not conform to international definitions of aid).*
- *$3.4 billion of aid to Vietnam.*
- *$4.0 billion to other Asian Communist LDCs.*
- *Up to $1 billion for academic assistance to all Third World countries.*
- *Several billion dollars in grant technical assistance subsidies (the difference between what the USSR charges and what Western technicians performing similar services would receive) to Communist and non-Communist LDCs.*

It is probable that the Soviets placed an unreasonably high value on their technical services and included unsettled trade deficits and possibly even military debt rollovers in their claimed aid totals. Our estimates show that the aid the USSR claims for 1980 would account for about 1.4 percent of national income or about 1 percent of GNP, as measured by the West. We believe, however, that net aid is substantially lower than the Soviet estimate.

25X1

25X1

In addition to carrying hard terms for most non-Communist recipients, the USSR's aid is narrowly focused. Of the estimated $23.6 billion in Soviet economic aid disbursements between 1976-80, 85 percent went to the USSR's Communist allies outside the Warsaw Pact, and another 4 percent went to Marxist LDCs such as Angola, Ethiopia, Mozambique, and South Yemen. Since 1981, more than 90 percent of the USSR's estimated $16.4 billion of aid to both Communist and non-Communist developing nations has gone to Communist LDCs and other Soviet client states.

25X1

LDCs in 1982/83 that clearly constitute aid pledges (table 3). Although most East European countries have preferred to provide the bulk of their assistance to wealthier LDCs to promote hard currency exports, two-thirds of East European 1983 aid commitments went to Marxist states. These countries have rarely accounted for more than 25 percent of annual East European pledges, and overall they account for just over 10 percent of total pledges.

East Germany, whose aid program has traditionally been driven by its own political interests—especially the desire to establish its worldwide status and legitimacy vis-a-vis West Germany—made the best showing in 1982 and 1983 with more than $300 million in new commitments (table 4). More than 70 percent ($220 million) of its new aid pledges were directed to countries targeted for special attention by the Warsaw Pact—Grenada, Mozambique, and Nicaragua. Because of its longstanding policy of aiding "fraternal" states, East Germany has responded more willingly than other East European states to Moscow's call for both political and material support to Marxist clients; it accounts for more than half of East European pledges to them—chiefly to Ethiopia, Nicaragua, and Mozambique. Furthermore, Bulgaria devoted

25X1

Table 3 *Million US $*
Eastern Europe: Economic Aid Extended to LDCs [a]

	Total	Marxist States
	13,120	**1,567**
1954-77	7,883	239
1978	1,598	417
1979	646	95
1980	1,322	192
1981	723	173
1982	560	94
1983	388	257

[a] Because of rounding, components may not add to totals shown.

Table 4 *Million US $*
Eastern Europe: Economic Aid Extended to Non-Communist LDCs, 1982 and 1983 [a]

	1982	1983
Total	**560**	**388**
Bulgaria	52	95
Czechoslovakia	21	47
East Germany	101	205
Hungary	125	10
Romania	261	30

[a] Because of rounding, components may not add to totals shown.

25X1

25X1

nearly 60 percent ($87 million) of its new aid to Marxist states in 1982 and 1983; Czechoslovakia directed about 70 percent ($48 million) to these countries.

Among the East European allocations to other LDCs, Romania made the largest single commitment—$250 million to Bangladesh as a second tranche of a $500 million credit to finance projects in virtually every area of Dhaka's public sector. Always sensitive to the question of maximizing benefits to its own economy, Romania has consistently refused to devote aid resources to Marxist clients who cannot afford repayment. Other East European donors made allocations in the $50 million range to traditional clients. Poland did not conclude any new development agreements with LDCs; potential recipients are concerned that Warsaw cannot meet contract obligations because of domestic political and economic problems.

The Record on Disbursements

Soviet and East European aid disbursements reached a record $1.8 billion in 1983, driven by Soviet deliveries of nearly $1.3 billion (table 5). Major recipients of Soviet aid in 1983 included:

- Ethiopia, with $235 million of oil and project assistance.
- Afghanistan, with more than $200 million in commodities and other assistance.
- Nigeria, which received an estimated $150 million of steelmaking equipment for the Ajaokuta project.
- Pakistan, whose Karachi steel plant absorbed $110 million of equipment. 25X1

25X1

The high level of Soviet disbursements reflects Moscow's unprecedented volume of grant commodity support to Marxist states—over $300 million in 1983. This type of aid is delivered very quickly, compared with project assistance that may be disbursed over a decade or more. Afghanistan has been the largest beneficiary, receiving commodity shipments to help stabilize the regime. Ethiopia also has required petroleum subsidies and shipments under credit because of foreign exchange shortages. It is likely that Soviet support is even more extensive than we know. For example, we do not include possible budgetary support to South Yemen, whose annual trade deficit with Moscow has been in the $100 million range for the past three years. Moscow may be deferring (or possibly excusing) Aden's annual trade settlements. 25X1

25X1

Recent East European disbursements of close to $500 million in 1983 regained the levels of the mid-1970s after three sluggish years that generally coincided with the outbreak of the war between Iran and Iraq

Table 5
USSR and Eastern Europe: Economic Aid Deliveries to Non-Communist LDCs

Million US $

	USSR		Eastern Europe
	Total Deliveries	Of which: Grants	
1979	574	30	305
1980	812	306	298
1981	853	198	384
1982	1,162	152	485
1983	1,300	330	495

[redacted]

Table 6
Economic Technicians in Non-Communist LDCs, 1983 [a]

Number of persons

	Total	USSR	Eastern Europe
Total	**124,470**	**41,085**	**83,385**
North Africa	69,155	11,625	57,530
Sub-Saharan Africa	17,870	11,315	6,555
East Asia	40	15	25
Europe	75	..	75
Latin America	1,365	515	850
Middle East	28,125	10,465	17,660
South Asia	7,840	7,150	690

[a] Numbers are rounded to nearest five.

25X1

[redacted] 25X1

(where major East European development programs were in progress) and the troubles in Poland. The acceleration of Bulgarian and East German deliveries to Nicaragua and Mozambique under recent agreements were responsible for much of the increase. [redacted]

Economic Technical Services: A Growth Industry
A key feature of Soviet and East European economic aid to LDCs continues to be extensive technical support. A record 124,500 Warsaw Pact economic technicians were posted to 74 LDCs in 1983—50 percent more than in 1980. The programs are focused on a few clients—particularly Algeria, Iraq, and Libya—with more than three-fourths of all technicians working in Middle Eastern and North African oil-producing states that pay hard currency or oil for services (table 6). About 15,000 were in countries that have received large amounts of Soviet development aid, such as India, Syria, and Turkey. Another 15,000 were in Marxist states and were employed under a mix of terms that ranged from hard currency payments for Angola and Mozambique to deferred charges under development credits to Afghanistan, Ethiopia, Nicaragua, and South Yemen. [redacted]

We estimate that Soviet and East European hard currency earnings from their economic technical services programs have been close to $2 billion annually in the past few years—as much as $500 million for USSR and $1.5 billion for Eastern Europe. Even the poorest African states, such as Guinea and Mali, must remit half of the charges for Soviet services in hard currency from their very limited foreign exchange reserves; the requirement causes considerable friction in their relationships with Moscow. The balance is paid in local currency or goods. The Soviets charge $40,000 to $70,000 annually for technicians, based on their skills and seniority, while East European countries charge up to $80,000 a year. Communist countries, which originally provided services at bargain rates, recently have brought technicians' salaries closer to Western levels. [redacted] 25X1

25X1

Academic Programs: Showing Continued Dynamism
The number of students from non-Communist LDCs being trained in Soviet and East European academic institutions grew to more than 90,000 in 1983 (table 7). Nearly 15,000 of these students were entering Communist universities for the first time. Afghanistan, whose educational system is being revamped along Marxist lines by Communist educational planners, had 11,000 nationals in the USSR and Eastern Europe under agreements signed in 1980. Jordanians

25X1

Table 7
Academic Students From LDCs in Training, December 1983 [a]

Number of persons

	USSR	Eastern Europe
Total	**56,070**	**34,785**
North Africa	3,355	1,940
Sub-Saharan Africa	17,915	12,645
East Asia	60	35
Europe	15	20
Latin America	7,590	2,975
Middle East	15,105	13,140
South Asia	12,030	4,030

[a] Numbers are rounded to the nearest five.

[redacted]

made up the second-largest national grouping (8,500) under a large-scale training program that began about five years ago. Some 40 percent of the LDC students in Communist countries were from Africa, dominated by contingents from Marxist nations such as Ethiopia (5,000), Madagascar (2,325), Mozambique (2,775), Algeria (2,350), Congo (1,800), and Angola (1,900). Nigeria was the only moderate African state with a large student population in Communist countries (2,500).[redacted]

The continued popularity of European Communist scholarships stems from the dearth of educational opportunities in most LDCs, as well as from the fact that the Warsaw Pact states cover most expenses, (transportation, room and board, tuition, medical expenses, and pocket money) and sometimes accept dubious academic credentials. These scholarships are valued at about $5,000 annually, according to Soviet officials.[redacted]

Academic and technical training have long been the most concessional feature of Soviet and East European aid programs and often represent the only assistance provided to some LDCs. We estimate that the Warsaw Pact countries spend the equivalent of $400-500 million a year to maintain these educational ties.

As a payoff, they hope to establish ties to persons who may eventually obtain influential positions in their home countries.[redacted] East European countries also hope to establish lasting relationships with LDC nationals who they can use to promote business relations.[redacted] 25X1 25X1

The Soviet program has been showing some success. One of the members of the ruling Directorate in Nicaragua is a Soviet graduate, according to the US Embassy in Managua. Other Soviet-trained LDC officials include four cabinet ministers, three sub-cabinet directors, several ambassadors, and thousands of government bureaucrats, professors, and doctors. Some are willing to serve Soviet ends.[redacted] 25X1 25X1

[redacted] 25X1

The Program Ahead

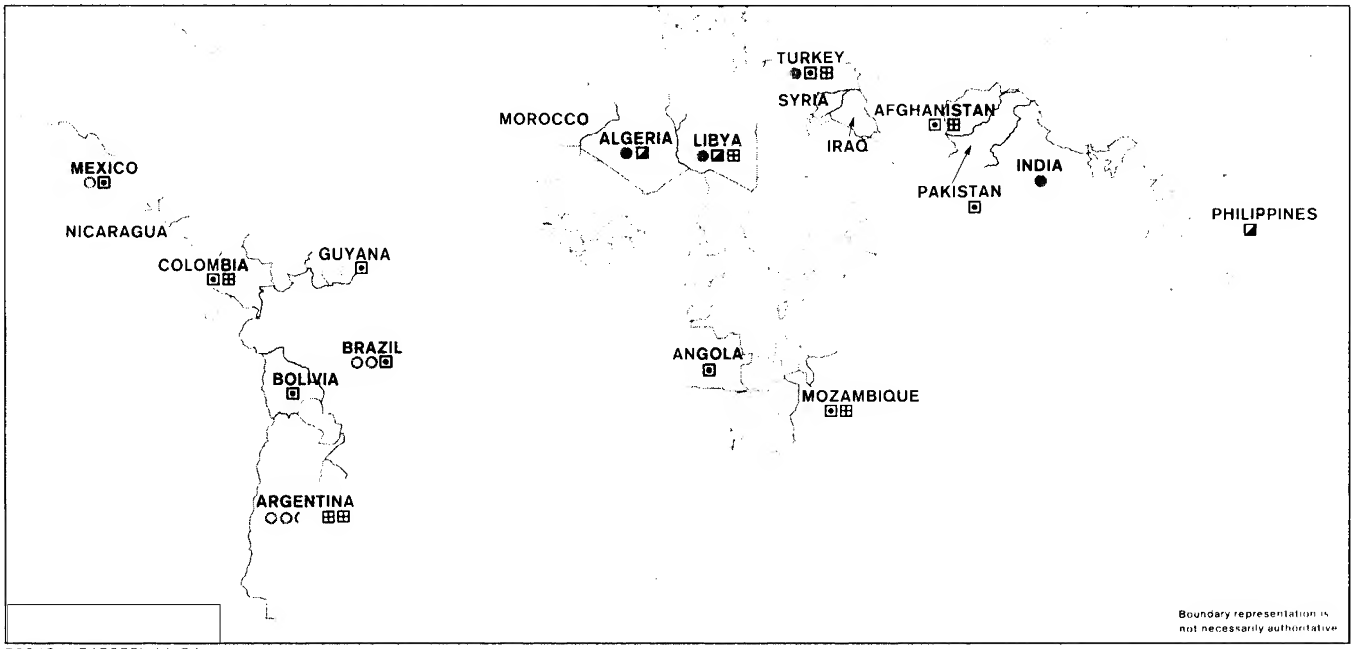
The Soviet economic aid program seems to be on a dual track. A core effort is devoted to providing financial support for Marxist LDCs. We see no decline in the need for such assistance in the years immediately ahead. Most of these countries have weak economies, and frail linkages to the Western economic system. Consequently, they are becoming increasingly dependent on Soviet largesse. Moscow, however, will not be willing to provide much more funding than it has during the recent peak years. Although the Kremlin would like to minimize the financial drain these countries impose, it does not want to give the impression that it is letting its Marxist allies down. For example, Moscow is studying a large hydropower project in Nicaragua, an oil refinery in Angola, and an aluminum plant and railroad construction in Mozambique. Some of these contracts could carry 10-year repayment terms[redacted] 25X1 25X1 25X1

The more dynamic element of the Soviet economic aid program will involve Moscow's efforts in non-Marxist LDCs. These countries will receive expanded Soviet credits for their ambitious development plans, as Moscow moves to enhance or protect its presence.

Figure 2
Major Soviet Offers of Aid for Projects in Less Developed Countries (LDCs), 1983

Type of project

Nuclear power plant — Heavy industry — Transportation and communications
Other power plant — Metals industry



25X1

703401 (545039) 11-84

Moscow also sees the program as a way to boost hard currency revenues. Indeed, Kremlin officials have recently shown greater interest in export-type development financing for both old and new non-Communist recipients. In 1982 and 1983 Moscow was negotiating 10-year repayment terms for:

- $500 million for electrification and transportation projects in Argentina.
- A $500 million hydropower plant in Mexico.
- A $250 million cement plant in the Philippines.
- A multipurpose dam and power plant in Pakistan that will cost $3.7 billion.

The USSR also has recently begun a push to sell nuclear power plant equipment to LDCs. India, Iraq, Morocco, Pakistan, Syria, and Turkey have received Soviet offers for nuclear plants, and Libya may already have concluded a contract. Moscow probably will have to provide substantial financing to clinch these deals, since price tags on this equipment range from $1.7 to $3.5 billion. Because of cast advantages, nuclear power development seems a most promising area of the LDC market for the USSR to exploit, if it can convince LDCs that Soviet-made equipment is as reliable and safe as that from Western suppliers. 25X1

We expect Moscow to bring many of these contract offers to a successful conclusion. They would keep annual Soviet extensions well over the billion-dollar level through the end of the decade. Through these contracts, Moscow will gain:

- Expanded equipment markets, particularly in the Middle East and Latin America.
- Increased hard currency repayments as it phases out amortization in many traditional local agricultural products.
- Strategic raw materials that will alleviate shortages in CEMA countries through aid repayments and associated buyback arrangements.
- Expanded hard currency payments for technical services that accompany development programs. 25X1

Soviet Credits Still Popular

For their part, developing countries continue to seek Soviet development credits for several reasons:

- The USSR still quotes terms that are below market rates for construction financing and that are cheaper than most Western construction loans. For example, recent World Bank loans extended for similar projects were repayable over 10 to 15 years at 7.5- to 8.5-percent interest.

- The USSR is willing to finance extensive infrastructural projects in the public sector (completely owned by the state), an area that many of Moscow's recipients are trying to develop. Most loans from the World Bank and associated agencies and the US Eximbank go to the private sector.

- The USSR is willing to accept goods, such as strategic raw materials, in repayment for its loans. Western financial institutions will not do so.

- The USSR has been helped by the debt-related problem in a number of LDCs of securing Western funds for development.

East European commitments will probably remain low unless promotion efforts in Arab countries begin to pay off. East European countries are fighting their own poor reputations for product reliability, spare parts supply, and service, as well as a general preference for traditional suppliers in their attempts to break into Arab (particularly Gulf) markets. One bright note: East European countries stand to gain when the Iran-Iraq hostilities end because both sides have indicated that they will favor supplier bids by East European countries that supported them in the war. Given the deterioration in some East European economies, we do not foresee any more major allocations to Marxist states in the next few years.

II. Communist Economic Programs: A Regional Analysis

Middle East and North Africa: Moscow's Largest Economic Stake

Since 1980, the USSR's support of Marxist LDCs has diverted some of its energies away from its important traditional clients in the Middle East and North Africa (table 8). Nonetheless, Communist economic activities in the area accelerated in 1982 and 1983 with the conclusion of several large new development contracts, including:

- Some $325 million in Soviet credits to Syria for civil aircraft purchases and power development.
- A $1.2 billion [4] Soviet contract with Iraq to develop the West Qurnah Oilfields. The Iraqi deal probably involves Soviet credits because of Baghdad's strained finances.
- Multibillion-dollar infrastructure development contracts with Algeria and Libya and more than $250 million in financing for Algiers.
- New East European credits—85 million to Egypt from East Germany and Hungary for equipment purchases and $9 million to Turkey from Romania for power equipment.

According to the press, the USSR also began preliminary construction work on the joint Khoda Aferin dam on the Soviet-Iranian border and turned over designs for expensive industrial complexes promised to the Shah.

Table 8 *Million US $*
Middle East and North Africa: Economic Agreements With Non-Communist LDCs [a]

	USSR	Eastern Europe
1982	NEGL	**92**
Egypt	..	83
Mauritania	NEGL	..
Turkey	..	9
1983	600	50
Algeria	250	..
Iraq	NA	..
Mauritania	2	NEGL
Syria	325	..
Tunisia	27	50
Turkey	..	NA

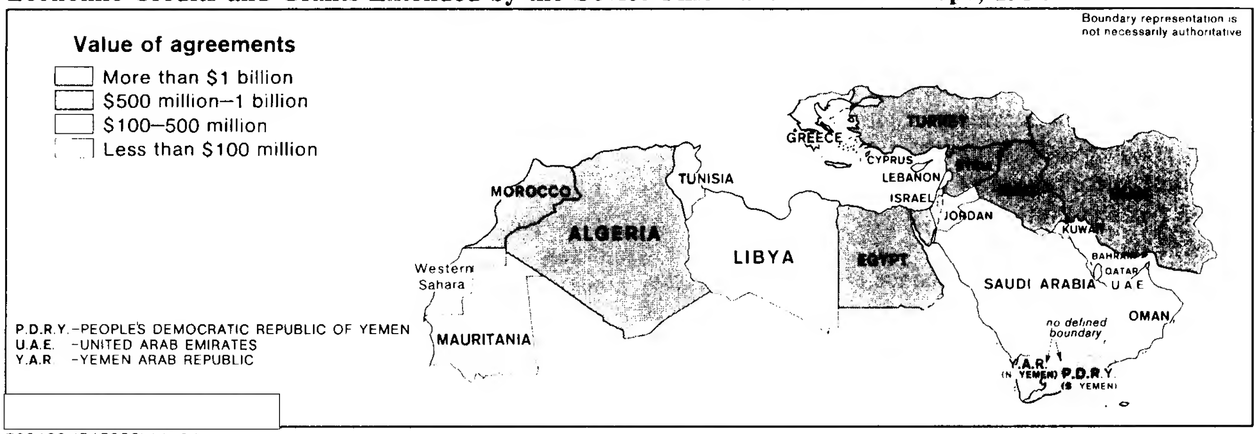
[a] Because of rounding, components may not add to totals shown.

25X1 25X1 25X1 25X1

[4] Not yet included in aid total because we are awaiting information on terms.

25X1

Figure 3
Middle East and North Africa:
Economic Credits and Grants Extended by the Soviet Union and Eastern Europe, 1954-83



[redacted] 25X1

703402 (545038) 11-84

Nearly 100,000 Communist economic personnel were employed in the Middle East and North Africa by the end of 1983, almost 80 percent of all Warsaw Pact economic technicians in non-Communist LDCs. Nearly 55,000 technicians were in Libya, which has employed large numbers of East Europeans on development projects since the early 1970s, nearly 18,000 were in Iran and Iraq, and more than 11,000 were in Algeria. [redacted]

Several conservative governments in the Persian Gulf have appeared more receptive to overtures by Communist states in the past two years, possibly because of Kuwait's support for relations with Communist countries. The Saudi Foreign Minister paid a visit to Moscow in February 1982 as a member of an Arab delegation but denied to US officials that the visit moved Riyadh closer to the establishment of diplomatic ties with Moscow. The smaller Gulf states have received bids from East European countries to participate in development projects, most of which are still pending. [redacted]

Algeria. There has been little discernible change in Algeria's relations with the USSR and Eastern Europe over the past two years. The five-year-old Benjedid government, with its insistence on a neutral political stance and an economic development strategy that emphasizes sophisticated Western technology, has continued to distance itself somewhat from the USSR. Still, relations have been good, and Communist countries were able to close several billion dollars worth of contracts for housing and other projects under Algeria's $100 billion 1980-84 development plan. The USSR provided at least $250 million in new credits to finance construction of the High Plateaus railway. We have no firm information on the terms of other contracts, but open sources report that the USSR is offering 10-year repayment terms on agreements that probably run into several hundred million dollars. Projects to be constructed under Soviet contracts signed in 1982 and 1983 include: 25X1

- Three-fourths of the 1,000-kW Alrar-Hassi R'Mel gas pipeline, for which the USSR is acting as general contractor.
- Four major dams.
- A 500,000-ton-per-year cement plant.

Some 6,000 Soviet personnel supported Soviet projects in Algeria in 1983 (the largest Soviet economic contingent in any LDC), and about 1,600 Algerians were being trained in the USSR. [redacted] 25X1 25X1

Sanitized Copy Approved for Release 2011/01/28 : CIA-RDP85S00315R000300010004-5

East European countries also emerged as substantial participants in Algerian development, with large agreements in 1982-83 to support Algeria's building boom:

- Bulgaria negotiated a contract to construct a $50 million forklift plant and to send more agricultural experts to work in several provinces.

- East Germany, Algeria's largest East European donor with $375 million in pledges, agreed to build 32 vocational training centers, a teacher training institute, 280 training workshops to accommodate 20,000 students, a cement plant, 30 opthalmology centers, 5,000 housing units, and several more unidentified industrial projects. East Germany also completed an industrial complex at Berrouaghia under a $95 million credit agreement.

- Hungary began work on 4,000 apartment units, 10 poultry farms, and four plants for animal feed, and agreed to supply 8,000 buses, under contracts valued at more than $300 million.

- Romania won contracts to supply 20,000 housing units, valued at $1.5 billion. [redacted]

Iran. Despite the Ayatollah's continuing suspicions about Soviet intentions toward Iran, the expulsion of 18 Soviet diplomats, and the arrest and public trial of leading Iranian Communists, Tehran's economic relations with the USSR and East European countries improved in 1983. Iran increased oil exports to 160,000 b/d in payment for Communist-supplied commodities and technical support, employed 2,600 Communist technicians at development projects, and exchanged a record $1.3 billion of goods with the USSR. [redacted]

Moscow's heightened project activity was largely responsible for the record $750-800 million in annual Soviet exports to Iran over the past two years. The USSR:
- Accelerated work on the Esfahan power plant.
- Completed a second blast furnace and a rolling mill at the Esfahan steel complex.
- Finished repairs on the war-damaged Ramin power plant.

Soviet personnel also worked on grain silos and flour mills, coal mines, and prefabricated housing plants, and began construction of the Khoda Afarin dam and power plant on the Iranian-Soviet border. Moscow presented plans for mining machinery and metal casting plants in Kerman, first agreed to under a billion-dollar prerevolutionary agreement to develop industrial zones in the northern provinces. In contrast, the triangular deal with the Shah to sell Soviet gas to Western Europe in return for Iranian gas shipments to the USSR—in limbo since the Khomeini takeover—died quietly as Iran planned construction of a gas pipeline to Western Europe through Turkey. [redacted]

25X1

The USSR remained instrumental in transporting Communist and Western goods overland to Iran. The USSR also instituted tanker service to Baku from the Iranian port of Now Shahr (an arrangement that could also serve West European oil customers) and began the study of possible new transit routes through the USSR to carry cargo to Iran. Tehran's dependence on Soviet road and rail links because of Iraqi attacks on Iranian shipping in the Persian Gulf emphasized the weakness of Iran's transportation networks and may result in speedier implementation of Soviet agreements to construct additional rail capacity at several border crossing points. According to the press, the Soviets still are periodically forced to turn away cargo for Iran because of severe congestion at the border. [redacted] 25X1

25X1

The Iranian–East European relationship is still centered on the exchange of Iranian oil for commodities and technical services. Tehran has become heavily dependent on Eastern Europe for medical equipment, supplies, and services to support the war with Iraq. [redacted] 25X1

Iraq. Communist participation in Iraq's economy has continued in spite of Iraqi financial strains caused by the four-year-old war with Iran (estimated to cost $700 million a month), and the near cessation of oil shipments to traditional East European importers. Under a $1.2 billion contract signed in 1983 to develop the West Qurnah Oilfields, the USSR is to 25X1

drill 100 producing wells to shore up Iraq's declining production capacity. We believe the USSR may have provided some credits for this project because of Iraq's deteriorating finances, but press reports have not mentioned financial terms. Some 5,000 Soviet civilian technicians in Iraq worked on several petroleum transport and storage projects and power and irrigation schemes, the largest of which is the Haditha dam in northern Iraq, designed to produce 570 megawatts of power. Moscow also discussed projects to overhaul the Najibiyah power plant and to increase output at the Ar Rumaylah oilfield.

Bulgaria, East Germany, and Romania signed wide-ranging, long-term economic cooperation agreements with Iraq in 1982 and 1983 that call for participation in all economic sectors:

- Czechoslovakia signed a $100 million pact to reclaim 13,000 hectares of land over the next four years and agreed to repair the war-damaged Salahuddin refinery.

- Hungary, together with a West German firm, will build a $165 million poultry complex, housing for agricultural workers, and a new bus assembly plant.

- Poland, with 9,000 specialists in Iraq, signed a $50 million contract for a ground water survey and began work on 80 transformer stations.

- Romania was awarded a $450 million contract to build a lubricating oil plant and was approached to build a multibillion-dollar oil pipeline through Turkey to service East European customers. Romania would have to fund the project.

The East European development effort in Iraq was supported by more than 10,000 technicians in 1983. Iraq has indicated that it expects to award more and larger contracts to Eastern Europe in appreciation for its support during the war.

Libya. Difficulties in meeting hard currency payments for Soviet arms and other Communist debts have dominated Tripoli's economic relations with Communist countries over the past two years. Libya's massive $1.5-2 billion scheduled annual debt payment to the USSR for weapons has been a source of friction between the two countries for several years. Moscow has tried to hold out for hard currency payments as specified in most of Libya's military contracts, but in 1982 it was forced to begin accepting several million tons of Libyan oil annually to prevent a default. The USSR ships most of the oil to West European customers for hard currency, a move Tripoli has protested because it undercuts Libyan sales. Diplomatic sources report that, in spite of the difficulties, the two countries may have agreed in principle in 1983 to sign a long-term friendship treaty that could further formalize economic, technical, and military relations. 25X1

25X1

The USSR has also maintained a fairly rapid pace on development projects, with more than 5,000 Soviet technicians in Libya, and was preparing to undertake several new projects, including:
- New power transmission lines.
- An extension of the $3.8 billion Soviet-built Brega-Misratah gas pipeline to al Khums.
- A nitrogen fertilizer plant.
- A chemical complex at Maradah.
- A hospital.

Soviet personnel put the finishing touches on the billion-dollar nuclear research laboratory at Tajura, and the USSR, as general contractor for a nuclear power plant at Surt, began to solicit equipment bids from West European and Japanese suppliers. A final contract on the power plant reportedly was expected in mid-1984. 25X1

Among East European countries, Bulgaria and Romania signed new long-term friendship and cooperation agreements. Libya also used oil shipments to resolve payment problems with Bulgaria, Hungary, Poland, and Romania. Libyan obligations to East European countries stem from nearly 50,000 technicians working on development contracts worth several billion dollars. East European countries are active in road and housing construction, agricultural development, and the oil industry. New contracts have been signed with East Germany to construct agricultural and training facilities and with Hungary for railroad design. 25X1

25X1

Morocco. Morocco's relations with Communist countries, always concentrated in the economic sector, remain low key. In spite of the chill over the Polisario issue that has permeated exchanges for the past several years, economic relations with the USSR proceeded at a normal pace. Rabat continued to buy Soviet oil, and the Moroccans awarded the USSR a contract under negotiation since 1978 to build an experimental power station fueled by oil shale. The USSR also completed surveys for the Meskala phosphate development project, which will be financed with $2 billion in Soviet credits extended earlier, and reportedly contracted to build a superphosphoric acid plant at Jorf Lasfar to supply the Soviet market. In addition, the Soviets agreed in principle in 1983 to begin a feasibility report on a fish processing plant to be supplied under a joint fishing agreement. Moscow's reluctance to move ahead with fisheries development under a 1978 accord has generated considerable acrimony in the relationship between the two countries. [redacted]

Recent East European relations with Morocco were highlighted by Romania's plans for a 1.1-million-ton steel complex at Nador, including blast and oxygen furnaces, a steel bar casting facility, rolling mills, a thermal power plant, and a coke facility. Bulgaria has agreed to finance development of a magnesite mine at Boudkek (probably under a 1979 credit of $45 million), and Rabat requested $40 million in aid projects from Poland to develop water purification and supply systems in several cities. More than 2,300 East European economic personnel were in Morocco in 1983 in connection with an extensive technical services program that has spanned two decades. [redacted]

Syria. The upgrading of the Syrian-Soviet military relationship in 1983 has been paralleled by new directions in the economic program. The USSR provided $325 million in new financing for several projects and by yearend had begun engineering studies on a 600-megawatt nuclear power plant and on Syria's first nuclear research center. Several hundred million dollars of new financing would be required for these nuclear projects if they reach the implementation stage, which could double Moscow's $1.1 billion in standing economic assistance pledges. The more traditional allocations under the 1983 agreements were:

- A $150 million credit for a thermal power plant.
- A $130 million credit for gas treatment plant and pipeline.
- A $46.5 million credit for civilian aircraft.
- A contract to increase the storage capacity of Lake Asad and the power output of the Soviet-built Euphrates hydropower project.

The USSR also completed the 108-kilometer Hims-Damascus railroad, and continued work on the expansion of the Latakia port and the al-Kebir dam and power project downstream from the Euphrates Dam. [redacted] 25X1

Eastern Europe, which has provided nearly $1.2 billion in aid to Syria over the past two decades, won several contracts by offering below-market financing:

- Bulgaria signed a $200 million contract to drill as many as 150 gas wells and develop a gas-gathering system. 25X1
- Czechoslovakia agreed to build a $130 million sour gas treatment plant and associated pipeline.

The new agreements will maintain the pervasive presence of the USSR and Eastern Europe in the Syrian development program. More than 3,500 Soviet and East European nonmilitary technicians were in Syria in 1982, and the US Embassy in Damascus reports that all East Bloc countries except Poland are involved in large-scale, multiyear, turnkey projects. [redacted] 25X1

Egypt. Under President Mubarak, Cairo's relations with Communist countries have recovered from the near break in the Egyptian-Soviet relationship brought about by Sadat. Egypt received almost all of the known East European economic aid to the Middle East in 1982 and 1983. The new economic commitments—$50 million from Hungary and $35 million from East Germany—were bank credits designed to finance Egyptian imports of capital goods from the two countries. Hungary will provide power, agricultural, and light industrial equipment, while East 25X1

Germany will increase its participation in Egyptian power development by rebuilding a power grid. Romania allocated $100 million of an old $300 million credit for electrification projects in the Sinai and agreed to send technicians to correct problems at a phosphate plant (built under an earlier aid agreement), whose products are of such poor quality that even Bucharest refuses to buy them. [redacted]

The USSR signed new economic contracts in 1982 and 1983 and returned some Soviet specialists to Egypt in response to President Mubarak's invitation to install equipment (ordered several years ago) at the Helwan steel plant, the cement plant at Asyut, and a generator at the Cairo power station. Some 200 Soviet personnel were in Egypt at the end of 1983 under the new contracts. Egypt also agreed to sell about $6 million worth of cotton to the USSR in 1982, the first such sale since 1978.[5] [redacted]

South Yemen. Economic realities strained South Yemen's relations with the USSR and its East European allies in 1982-83. Dismayed by the lack of economic progress made since the revolution in the late 1960s, President al Hasani has begun to seek economic investment from the West and Saudi Arabia. Even though the USSR and its allies have promised nearly $1 billion in economic aid to Aden, Communist-sponsored projects have suffered compared to the limited Western effort in South Yemen. For example, in 1982 an Italian firm discovered oil in Aden's territorial waters; long-term Soviet and Romanian land-based efforts have turned up nothing. In addition, the USSR has not built long-awaited power and cement production facilities; [redacted] the cost of the power plant has increased threefold since the original agreement was signed. Still, in 1982 and 1983 the USSR signed pacts to improve Aden port and construct a satellite receiving station as part of the Intersputnik network. Work continued on a fishing port, irrigation projects, a hospital, and the power plant, while Moscow promised action soon on the cement plant. [redacted]

[5] In 1984, Cairo restored diplomatic relations with Moscow [redacted]

Table 9
South Asia: Economic Credits and Grants, 1982 and 1983 [a]

Million US $

	USSR	Eastern Europe
1982	**93**	**252**
Afghanistan	90	..
Bangladesh	..	252
Nepal	3	..
1983	**860**	..
Afghanistan	371	..
Bangladesh	73	..
India	140	..
Pakistan	277	..

[a] Because of rounding, components may not add to totals shown.

25X1
[redacted] 25X1

25X1

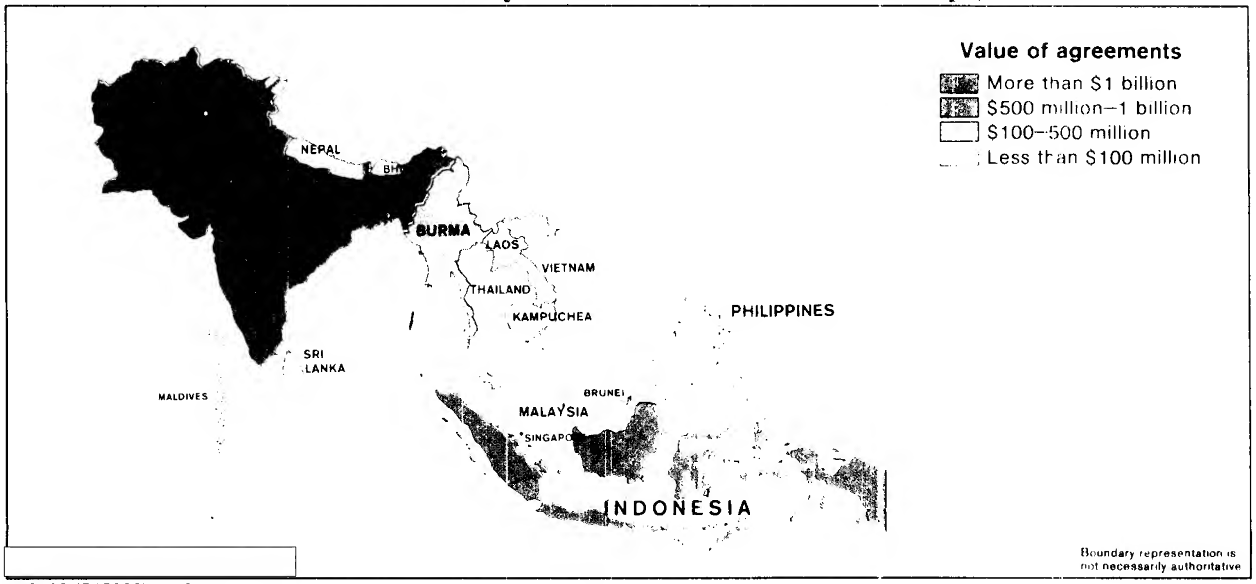
South Asia: Deepening Communist Involvement

The Soviet occupation of Afghanistan has dominated Communist relations with South Asia since 1981. The USSR's commitment to shore up Kabul's Marxist government and its desire to maintain friendly relations with South Asian countries have moved them into the limelight among Moscow's aid recipients. In 1982 and 1983, the USSR provided nearly a billion dollars in assistance on very liberal terms to South Asian recipients; this was about 30 percent of its total program in those years (table 9). India, still a major Russian customer despite frictions over the Afghan invasion, received $140 million in Soviet financing for a steel plant, and Pakistan took up some of the $2 billion in credits offered by the Kremlin to mend the rift caused by the Soviet presence in Afghanistan. [redacted] 25X1 25X1 25X1
[redacted] 25X1

Afghanistan. Since the Marxist takeover in 1977, Afghanistan has become one of the USSR's largest economic aid beneficiaries (after India and Turkey) in the non-Communist world. The USSR provided $460 25X1

25X1

Figure 4
South and Southeast Asia:
Economic Credits and Grants Extended by the Soviet Union and Eastern Europe, 1954-83



25X1

703403 (545038) 11-84

million in new assistance to Afghanistan in 1982 and 1983; most of it was grant aid to finance the delivery of commodities. More than $800 million of Moscow's $1.1 billion in economic aid deliveries to the Marxist government have been in the form of grants, generally to cover the delivery of food and other basic commodities. The USSR reportedly also has been forced to provide $75-100 million in hard currency loans to procure consumer goods from third countries. Through 1983 disbursements have averaged nearly $300 million per year since the December 1979 Soviet invasion. In addition to its fairly generous commodity support, the USSR has permitted Afghanistan to defer payments on the services of Soviet technicians, for which the USSR usually demands cash payments. Deliveries to projects also have continued at about $75-100 million annually as the Soviets expedited work on transport and military-related projects that will facilitate logistics for Soviet troops. For example, the Afghan press reported that Soviet personnel completed a bridge across the Amu Darya river at the border well ahead of schedule. Moscow also has:

- Built two oil-products pipelines to service Soviet units in Afghanistan.
- Recently agreed to build Afghanistan's first railroad, linking Pul-i-Khumri and Kabul with the Soviet border and possibly extending to Iran and Pakistan.
- Agreed to finance expansion of the Kabul airport.

25X1

In contrast, the war has impeded Soviet efforts to move forward with other major development projects such as the Ainak copper complex, the Hajigak iron ore scheme, and natural gas exploration in the north. The only major development contract announced between Moscow and Kabul in the past two years was a $200 million project to link Afghanistan to the USSR's power grid, to be financed under old agreements. Moscow also signed protocols in 1983 to continue oil and gas exploration and exploitation, to complete the Mazar-i-Sharif thermal power plant, and to reconstruct the Torgundi railway station. The Soviet program in 1983 was supported by 5,000 technicians in Afghanistan and a burgeoning training effort that saw nearly 9,000 Afghans in Soviet educational institutions at yearend.

25X1

Until the invasion, Moscow's economic program in Afghanistan was self-sustaining. Commercial deliveries and aid flows were nearly balanced by Afghan exports of three billion cubic meters of natural gas annually through a pipeline built by the Soviets in the mid-1960s. With gas deliveries, Kabul financed a Soviet program that over the past 25 years has accounted for two-thirds of Afghanistan's 21,000 kilometers of roads, nearly all of its major airfields, two-thirds of its electric generating capacity and an extensive transmission network, 40,000 hectares of land cultivable through irrigation and reclamation, and the entire natural gas industry, which produces about 3.5 billion cubic meters of gas per year. Since the invasion, however, the Soviets have been providing about $200 million in aid annually that will not be reimbursed. In addition, rebels have blown up the gas pipeline several times in the last two years, interrupting gas supplies to the USSR.

India. Complementing the large new military cooperation agreements signed in the past two years, the USSR and India announced significant progress in bilateral economic relations. In addition to $140 million in 17-year loans to finance expansion of the Vishakapatnam steel plant, Moscow apparently has offered to provide financing for several other projects, including:
- A nuclear power plant.
- Onshore oil exploration and secondary recovery technology.
- An oil refinery.
- Modernization of the Soviet-built antibiotics plant at Rishikesh.
- Upgrading the Soviet-built Neyveli and Patratu thermal power plants, and equipping the Kalgaon power plant.
- Cooperation in building high-technology oil and coal extraction equipment at Indian plants for use by both countries.
- Joint ventures in third countries.

Protocols for oil development and the antibiotics plant were signed in early 1983. Some of these undertakings could be funded with the $1 billion of Soviet aid in the pipeline, but massive new credits would be required to cover costs for such ambitious projects as the nuclear power plant. The USSR also hinted that it would finance some equipment for the 600,000-ton Orissa Alumina Plant, a project held up by Indian budgetary problems.

The USSR also has deepened its involvement in India's ongoing project development with major deals that will fall under earlier aid arrangements, including:
- A $400 million contract to set up the Vindhyachal superthermal plant in Madhya Pradesh.
- Protocols to proceed with development of the Jhanjra coal mine.
- Agreements to assist a synthetic rubber plant and a hydrogen peroxide facility.
- A protocol to improve the Korba aluminum smelter.

25X1

Last year Moscow also concluded a protocol to exchange $3.6 billion of goods in 1984, a 6-percent increase over 1983 that will keep India in first place among the USSR's LDC trading partners. The new protocol includes 6 million tons of petroleum and products from the USSR.

25X1

25X1

Pakistan. Pakistan's economic relations with the USSR have improved somewhat (in spite of political strains over the Soviet occupation of Afghanistan) on the strength of $275 million in new credits for a thermal power plant at Multan. The new credit was part of as much as $2 billion in financing the USSR offered in 1982 for Pakistani projects, including:
- Downstream industries related to the Soviet-built Karachi steel plant.
- Additional power capacity.
- Oil and gas development.

In March 1983 the first stage of the Soviet-sponsored Karachi steel plant, the largest industrial construction project in Pakistan's history, was officially commissioned. The second stage, to be completed in 1984, includes a second blast furnace, a hot strip mill, and a cold rolling mill. The USSR also began construction of a plant to assemble 51,000 Belarus tractors a year under an $18 million credit agreement.

25X1

East Asia: Suspicious of Soviet Initiatives

Because of evidence of the area's lingering suspicions about the Soviet military presence in Vietnam, ongoing contention over the Kampuchea issue, and the general unwillingness of East Asian governments to

25X1

Table 10 *Million US $*
East Asia: Economic Credits and Grants, 1982 and 1983

	USSR	Eastern Europe
1982	..	**10**
Indonesia	..	NA
Philippines	..	10

[redacted]

become involved in a power struggle between Moscow and Beijing, Moscow has failed to improve its political fortunes in most of East Asia over the past few years (table 10):

- Soviet relations with *Indonesia* were strained by the exposure of espionage activities by Soviet diplomats and Aeroflot officials in 1982. The Aeroflot office was closed, but plans to eliminate the Soviet Consulates in Medan and Surabaya and disband the press and trade sections of the Jakarta Embassy have not been implemented. While remaining cool toward Moscow, Jakarta has sent trade representatives to the USSR to prevent a further deterioration in relations because of its interest in expanded trade with the USSR and Eastern Europe and a desire to promote Indonesia's nonaligned image.

- The USSR made some progress in the *Philippines*. First Lady Imelda Marcos caused a furor in conservative quarters in Manila in 1982 by accepting a Soviet offer of a 1-million-metric-ton cement plant during a July trip to Moscow. If carried out, the project would provide the USSR with a long-sought means to increase its presence in the Philippines. Soviet technicians already have gathered initial data for the cement project, together with a related coal development scheme and power plant. The $200-250 million cement project may run into trouble, however, over Manila's request for full Soviet financing over 20 years. Moscow also has offered aid to power development and food processing.

- *Singapore*'s largest shipyard won a $110 million contract in 1982 to repair and convert two Soviet whalers to fish-factory ships—the largest single such contract ever undertaken in Singapore. Nonetheless, Prime Minister Lee remains suspicious of the large Soviet commercial presence in Singapore, and political relations deteriorated after the exposure last year of Soviet espionage activity in Singapore. [redacted] 25X1

25X1

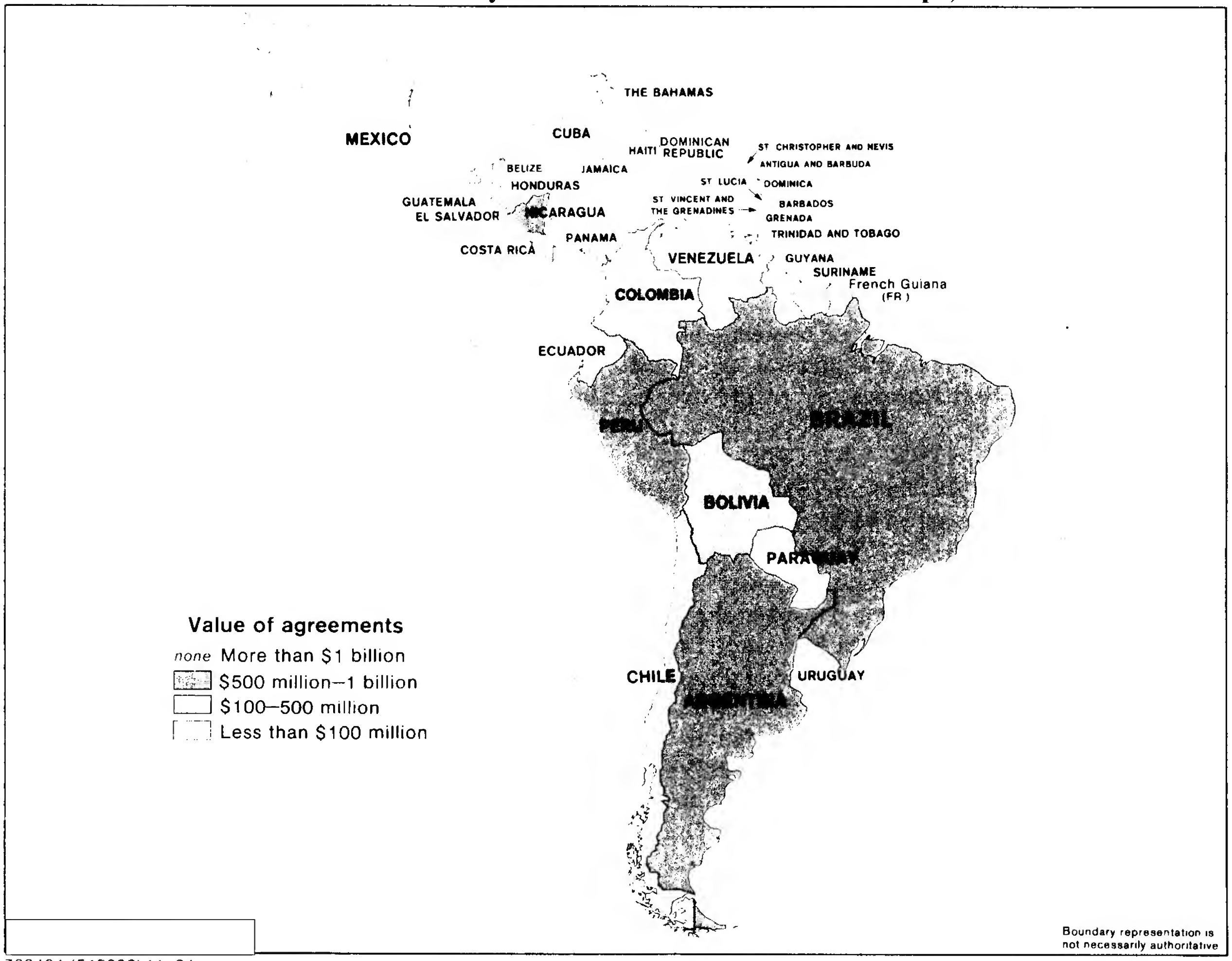
East European countries continued to offer trade credits to expand commercial dealings in the area. East Germany discussed reviving its aid program in Indonesia—dormant for 20 years—while Romania signed an economic cooperation agreement that established a joint commission for cooperation. Romania and Indonesia agreed to accelerate negotiations on agricultural, livestock, and forestry projects. The Philippines accepted $10 million in trade credits from Czechoslovakia, and Thailand turned down a $22 million Polish bid to build an aluminum sulfate plant because of its high cost and fears that instability in Poland could cause a contract default. No decision was announced on a Romanian offer to provide equipment and technical assistance to a Thai fertilizer complex and help for other development projects. [redacted]

25X1

The Caribbean and Central America: The Newest Assistance Program

During 1982 and 1983, Communist countries responded to opportunities created by the Marxist regime in Nicaragua and continuing turmoil in the Caribbean and Central America with more than $735 million in new economic agreements. Nicaragua received most of the aid as Cuba, the USSR, and East European donors signed $700 million in agreements to finance commodities, equipment, and technical services. The Communist commitment to Nicaragua was further demonstrated by Managua's acceptance as an associate member of CEMA in 1983. Before the US intervention, Grenada also received its first significant

Figure 5
Latin America and the Caribbean:
Economic Credits and Grants Extended by the Soviet Union and Eastern Europe, 1954-83



25X1

703404 (545038) 11-84

aid from the USSR, $10 million in credits for communications and other projects, and an additional $10 million from Eastern Europe (table 11).

25X1

Grenada. In 1983, Grenada was the site of one of the most dramatic failures for Soviet policy in Latin America. Prior to the US-Caribbean intervention, Communist countries had deepened their economic relationships with the leftist government of Prime Minister Bishop with more than $50 million in economic commitments that included:

- Soviet pledges of more than $10 million in credits and grants to finance a deepwater port at Grenville, a satellite receiving station, agricultural supplies and services, and commodities. Moscow also participated in Grenadian economic planning under an agreement signed in December 1982, and Soviet technicians had arrived in 1983 in connection with these projects.

Table 11
Western Hemisphere: Communist Economic Credits and Grants, 1982 and 1983

Million US $

	USSR	Eastern Europe	Cuba
Central America/Caribbean			
1982	**173**	**93**	**131**
Costa Rica	..	..	1
Grenada	10	9	NEGL
Nicaragua	163	84	130
1983	**26**	**255**	**60**
Grenada	..	NEGL	NEGL
Jamaica	10	..	..
Nicaragua	16	255	60
South America			
1982	**2**	..	..
Bolivia	2	..	..
1983	**156**	**10**	**NEGL**
Argentina	68	..	..
Bolivia	72	10	NEGL
Brazil	15	..	..
Peru	1	..	..

[redacted]

- East German promises of $10 million in credits for a new telephone system, a cocoa processing plant, and other agricultural and communications equipment.
- Cuban pledges of $30 million for an airport at Point Salines, fishing trawlers, television equipment, and 40 tractors. More than 700 Cubans, the largest foreign contingent in Grenada, were associated with the construction projects. [redacted]

Nicaragua. Communist countries continued their unprecedented level of economic support to Nicaragua in 1982/83 with more than $700 million in economic pledges. Cuba was the largest donor with $190 million in commitments designated for a sugar plant, agricultural equipment, medical supplies, consumer goods, and services. Most of the Cuban program consists of technical services rather than financial aid. The USSR ran a close second with $180 million in new agreements, which included, among other projects:

- Studies for hydropower stations in Matagalpa and Majolka, for which Nicaragua eventually expects several hundred million dollars in construction loans.
- Port construction at San Juan del Sur.
- Five training schools in agriculture, energy, fishing, and mining.
- A 400-bed hospital.
- Mineral prospecting, gold mine rehabilitation, and topographical mapping. [redacted] 25X1

Some $30 million of the new aid is allocated to develop the mining industry; another $50 million is for technical assistance and feasibility studies, items for which the USSR generally demands cash payments. In addition, Moscow is allowing Nicaragua $30 million in commodity credits—usually reserved for favored clients. [redacted] 25X1

East European countries pledged almost $350 million in new aid to Nicaragua. Among these countries' new agreements (which brought their total pledges since 1979 to $465 million) were:

- $85 million from Bulgaria for hydropower, mining, and agricultural projects. 25X1
- $200 million from East Germany for projects and commodities, consolidating East Germany's position as Nicaragua's major East European donor.

Larger Communist economic programs were accompanied by an expanded technical presence. The number of Communist economic personnel assigned to Nicaragua rose to nearly 7,000 in 1983, more than 90 percent of them Cubans. [redacted] 25X1

The USSR and Eastern Europe delivered an estimated $250 million in aid to Nicaragua in 1982/83,[a] but only about $45 million served as balance-of-payments assistance compared to Nicaraguan receipts of $500 million in aid annually from non-Communist sources. 25X1

[a] A January 1984 Soviet agreement to deliver oil in exchange for Nicaraguan products will mean a greater Soviet contribution to Nicaragua's urgent balance-of-payments requirements. [redacted] 25X1

The rest of the assistance was in the form of machinery and equipment and technical assistance. Soviet officials reportedly have expressed concern over Nicaraguan expectations of a "bailout" and have voiced reservations to Western officials over the Sandinistas' ability to manage the economy. According to the US Embassy, Moscow has advised Nicaragua to pursue some policies that will allay the concerns of Western donors and increase Western aid flows. [redacted]

Guyana. Guyana's relations with Communist countries have been generally friendly in spite of Georgetown's differences with the USSR over aid and trade issues. Ties to the USSR cooled because of Moscow's unwillingness to provide development assistance on easy terms. The Soviet Ambassador to Guyana publicly stated that Moscow has offered assistance under a 1977 agreement for bauxite, gold, and aluminum development as well as "unlimited" credit for equipment purchases such as aircraft, helicopters, bulldozers, and other machinery. Guyana turned down these offers because of harsh terms. The USSR required hard currency payment for a feasibility study on a proposed aluminum plant and for Soviet technical services both standard Soviet practice. Moscow recently renewed its offer to rehabilitate a bauxite processing facility at Linden in return for bauxite deliveries. [redacted]

Jamaica. In spite of the Seaga government's intention to reduce contacts with Communist countries, the USSR may have signed a construction contract for a 600,000-ton caustic soda plant (probably under the credit agreement signed in 1977) and reached an agreement to buy 1 million tons of bauxite annually beginning in 1984. The USSR also provided Jamaica a $10 million trade credit to purchase Lada automobiles as part of the new trade agreement. [redacted]

Mexico. The USSR and Eastern Europe have continued to pursue economic initiatives individually and within the framework of the Mexican-CEMA Joint Commission, established under an agreement signed in the mid-1970s. The USSR (in a consortium with Finland) bid on a contract for a joint newsprint factory in Mexico and has prepared offers on several power projects valued at half a billion dollars. Moscow also was negotiating for Mexican oil shipments to Cuba in return for Soviet oil deliveries to Mexican customers in Europe—a deal that could involve as much as 60 percent of Cuba's oil requirements. Mexico has been cool toward this arrangement. [redacted] 25X1

South America: Pursuing New Opportunities

In contrast to expanding programs in parts of Central America and the Caribbean, longstanding efforts to increase the Communist economic presence in South America have had more limited success. This has prompted the Kremlin to assign high priority to the expansion of aid and trade relations with major South American countries to redress the annual $2-2.5 billion hard currency drain on the USSR from its purchases of South American grain and other commodities. In 1982 and 1983, the USSR placed $155 million of credits at the disposal of South American suppliers to buy Soviet machinery and equipment, only a fraction of the several hundred million dollars Moscow has offered for major power and minerals industry projects. However, Moscow was able to break new ground with a triangular agreement in 1982 under which Brazilian contractors will provide construction services for a Soviet-sponsored dam and hydropower project in Angola. Argentina and the USSR reportedly are undertaking a similar venture in Peru. Moscow hopes that these creative approaches to cooperation will help it break into South America's Western-dominated private-sector equipment markets. [redacted]

25X1

25X1

25X1

Argentina. Moscow hopes that its political support for Argentina during the Falklands war, its position as Buenos Aires' major single trading partner (accounting for 60 percent of all Argentine export earnings in 1982), and its willingness to offer financing for development projects will open opportunities for a more extensive role in Argentine development projects. [redacted]

25X1

25X1

Argentina's acceptance of $68 million in credits for the Piedra del Aguila power project may signal reduced Argentine reluctance to Soviet participation in local projects. Moscow also has threatened a cutback in agricultural purchases to prod Buenos Aires into accepting a larger Soviet role. As head of a multinational consortium, the USSR submitted a bid

Sanitized Copy Approved for Release 2011/01/28 : CIA-RDP85S00315R000300010004-5

to construct the $10 billion Middle Parana power project, for which Moscow has completed feasibility studies and designs. Other projects under discussion include:

- The power complexes at Santa Cruz, San Juan, Parana Medio, and Bahia Blanca.
- A $100 million graphite electrode plant.
- Port construction and modernization at Bahia Blanca, Puerto Madryn, and Ushuaia.
- Electrification of a railroad from Buenos Aires to Rosario.
- A natural gas pipeline.
- A papermill.

Moscow and Buenos Aires also discussed joint construction of a power project in Peru, and Argentina began shipping uranium to the USSR for enrichment under an agreement signed in 1981. In anticipation of increased business, the USSR renewed a 1980 agreement that provides open-ended trade credits.

There were few significant developments in Argentine–East European relations during the year. East European countries tried to fill the void caused by the EC embargo of Argentina during the Falklands confrontation. Bulgaria, Czechoslovakia, and East Germany offered unspecified financial support, probably for commodities, and Sofia offered to provide commodities affected by the Western embargo.

Brazil. The USSR has tried to move toward a closer, more broadly based economic relationship with Brazil over the past two years, in spite of Brazil's well-publicized suspicions about Moscow's aims in the Western Hemisphere. Fundamental to the growing relationship were:

- New Soviet agreements to participate in joint power projects with Brazil in Angola and Mozambique.
- Soviet offers to supply equipment to the Santa Isobel and Piedra do Cavala power projects.
- Soviet interest in the $900 million project to reclaim 1.5 million hectares of irrigable lowlands in the Varzeas region.
- Soviet offers to participate in the $650 million copper segment of the Carajas general development project.
- Startup on Soviet contracts to install 15 methanol plants in Brazil and negotiations to sell licenses for Soviet tin, steel, copper, and iron technologies.
- Soviet offers to enrich Brazilian uranium.

Moscow's large trade deficit with Brazil was eased somewhat in the past two years by a drop in Brazilian agricultural commodity prices and by Soviet sales of oil valued at around $375 million. Deliveries of equipment, however, remained low in spite of high-powered Soviet sales efforts over the past two or three years. According to the US Embassy in Brasilia, the USSR was disappointed that plans to sell hydroelectric equipment for four or five medium-scale hydropower projects under a 1981 agreement fell through, as did plans to exchange a Soviet roll-on/roll-off ship for Brazilian agricultural products. Moscow also expressed interest in Brazilian bauxite and copper in exchange for Soviet machinery and equipment and signed a contract for Brazilian sugar valued at $160 million. 25X1

The activities of most East European countries continue to focus on easing their growing trade deficits with Brazil: 25X1

- Bulgaria held talks on possible construction in Brazil of facilities for dehydrating vegetables and manufacturing pharmaceuticals.

- Czechoslovakia agreed to construct two thermal power plants (including $25 million worth of equipment to the Jorge Lacerda plant) and three cement factories, which are to be repaid with iron ore. 25X1

- East Germany signed contracts under a 1978 credit agreement to install $150 million worth of cranes and to provide technology for Brazil to produce more. Berlin also offered $20 million in credits for laboratory equipment.

- Brazil and Hungary established reciprocal trade credits in the $200 million range and agreed to cooperate in agriculture, livestock breeding, culture, and science. In a turnabout, Brazil sought participation in World Bank financed projects in Hungary.

- Romania proposed several projects under outstanding credits worth some $150 million, including the sale of drilling rigs, agricultural and mining equipment, and the construction of an iron ore processing plant.

25X1

Most East European countries explored prospects for joining with Brazil to construct projects in third countries, and Czechoslovakia, East Germany, Hungary, and Romania also requested credits to reduce their commercial settlements burden. Warsaw's negotiations to reschedule its $1.6 billion debt to Brazil have dominated relations between the two countries over the past several years. [redacted] 25X1

Bolivia. The major development in Bolivia's economic relations with Communist countries was $72 million of Soviet credits for a second tin volatilization plant (at Marchamarca) in spite of problems and cost overruns encountered during the construction of a similar plant at La Palca. The two plants together will absorb $150 million in Soviet credits, repayable in nonferrous metals. The La Palca plant, the largest of its type in the world, was turned over to Bolivia several years behind schedule in 1982. The Bolivians hope to buy another $160 million worth of machinery and equipment from the USSR and Eastern Europe over the next year or so for the mining industry. According to the US Embassy in La Paz, this will tie the strategic tin industry to the USSR for the next decade. The USSR also is considering assistance for trolley bus systems for Cochabamba and Santa Cruz, a prefabricated housing plant, four hydropower plants, geological prospecting, a tractor plant, and a cement plant under an open-ended 1976 line of credit. [redacted] 25X1

Bolivian relations with Eastern Europe were highlighted by a Romanian offer of as much as $100 million in credits to finance purchases of agricultural equipment and fertilizer. La Paz also signed an agreement with Hungary to exchange tin for pharmaceutical products. [redacted] 25X1

Sub-Saharan Africa: Heightened Economic Support

Soviet and East European economic agreements in Sub-Saharan Africa rose to more than $1 billion in 1982 and 1983 as the USSR provided expanded balance-of-payments and development aid to client states. Angola signed an agreement with the USSR in January 1982 that eventually could provide $2 billion in credits; $400 million in contracts already have been signed for a dam project the USSR will construct jointly with Brazil. The USSR agreed to let Ethiopia defer payments for 12 years on an estimated $150 million worth of oil, and also agreed to provide $250 million in new aid for an irrigation project. Moscow also was studying the feasibility of several hundred million dollars worth of projects for Mozambique (table 12). [redacted] 25X1

Table 12
Sub-Saharan Africa: Economic Credits and Grants, 1982 and 1983 [a]

Million US $

	USSR	Eastern Europe
1982	**696**	**113**
Angola	400	..
Equatorial Guinea	1	..
Ethiopia	232	..
Ghana	10	NEGL
Guinea	..	20
Guinea-Bissau	15	..
Madagascar	6	..
Mali	22	..
Mozambique	5	10
Nigeria	..	70
Tanzania	5	10
Zimbabwe	..	2
1983	**308**	**72**
Ethiopia	266	2
Ghana	NEGL	NEGL
Kenya	..	5
Lesotho	..	5
Mozambique	16	..
Nigeria	..	5
Seychelles	6	..
Somalia	..	25
Uganda	11	..
Zambia	9	..
Zimbabwe	..	30

[a] Because of rounding, components may not add to totals shown.

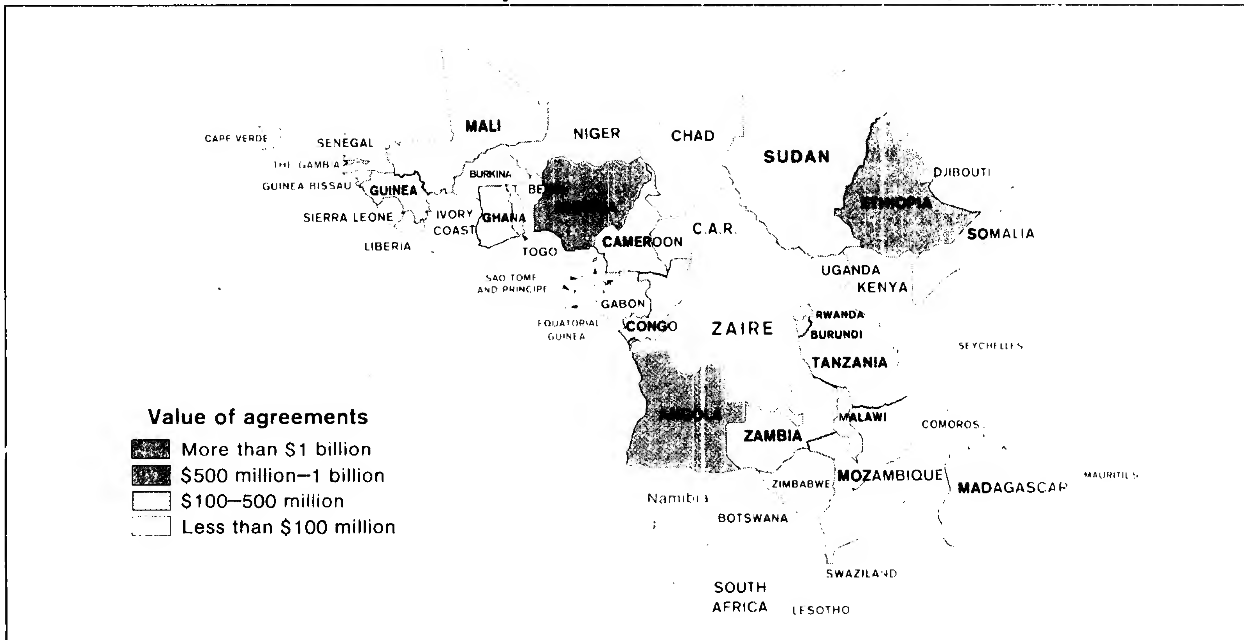
[redacted] 25X1

25X1

25X1

There has not been a similar increase in assistance for politically moderate countries in the region with the exception of Nigeria, which pays for Soviet assistance

Figure 6
Sub-Saharan Africa:
Economic Credits and Grants Extended by the Soviet Union and Eastern Europe, 1954-83



[redacted] 25X1

703405 (545038) 11-84

25X1

in hard currency. Until the 1980s, African states had absorbed only about 10 percent of Soviet assistance, as Moscow pursued more lucrative interests among wealthier LDCs. Now that the USSR is supporting some balance-of-payments needs in African client states (especially Ethiopia), Soviet aid to Africa in the 1980s has risen to 15 percent of total pledges. [redacted]

Angola. The USSR moved quickly to implement a 10-year agreement signed in January 1982 that eventually could provide as much as $2 billion in economic development aid. The USSR signed a contract to provide $400 million in equipment credits for the Kapanda hydroelectric dam and power plant—an undertaking that will be Angola's largest construction project. In an unusual move, the USSR will join with Brazil to execute this contract. It is part of a comprehensive Soviet-formulated development plan under which Moscow will also construct a 400,000-hectare irrigation system, bridges, and other projects in Malanje Province. Angola and the USSR also are discussing the construction of an oil refinery. [redacted] 25X1

The new Soviet agreement has not appreciably reduced the growing tension in relations caused by the Soviet and East European failure to help reverse the decline in Angola's economy. [redacted] there is a widespread belief among Angolan officials that nearly 10 years of Soviet economic aid has been a failure. More than 9,500 Communist economic technicians were present in Angola in 1983, but industrial production lagged far behind prewar levels, and only the Western-run oil industry operated at a profit. Food and consumer goods shortages have become more pronounced. Moscow has flatly refused to provide emergency food assistance for war-torn southern Angola. Meanwhile, Angolan officials are watching the growing Soviet debt burden with dismay; Angola may have agreed to settle some of its obligations to Communist countries by repaying in oil. [redacted] 25X1

25X1

25X1

Ethiopia. As a result of lengthy economic negotiations, Moscow made substantial new credits available in 1982 and 1983 to Ethiopia for oil—its first such concession to a non-Communist LDC—and for development projects. The USSR agreed to provide 500,000 tons of crude oil in 1983 (all of Ethiopia's requirements) on credit at prices 10 percent below the world market. The USSR also moved forward on Chairman Mengistu's repeated requests for project aid with a $250 million credit for an irrigation project and for further oil exploration. The Soviets continued work on:

- A cement plant.
- A farm machinery assembly complex.
- A caustic soda plant.
- Ninety grain and fodder warehouses.
- Oil, gas, and mineral prospecting projects.

Although publicly reaffirming his political commitment to Moscow, Mengistu continues to rely on the West for economic assistance. Ethiopia is trying to increase Western aid for Ethiopian development projects above the $250 million it now receives annually.

Mozambique. Mozambique's expanding economic ties with Western powers have not affected its economic relations with the USSR and its East European allies, who deepened their economic involvement in Mozambique during 1982 and 1983 with nearly 2,400 Warsaw Pact technicians and $30 million in new aid. The USSR, already the largest Communist donor with $140 million in outstanding development credits, pursued several initiatives:

- Participation in a railroad from the Moatize coalfields to the port of Beira, using Brazilian firms as civil works contractors.
- The supply of $150 million worth of equipment for the second stage of the Cabora Bassa hydropower project.
- Acceleration of work on mining and agricultural projects, an aluminum smelting plant at Caia, and coal exploration.

The USSR also donated $20 million worth of grain, food, other commodities and seed grain to Mozambique

Other Communist donors concentrated on implementing projects agreed to earlier. East Germany, under a new agreement, provided $10 million in grant aid for commodity purchases. The East Germans also discussed a 120,000-hectare grain-growing project, accepted several thousand new students into a program developed in 1981 to train Mozambicans at home and in East Germany, sent more agricultural advisers and equipment, and donated educational materials. Romania prepared to begin work on a $16 million steel plant for which it is providing some financing. Some 1,400 East European economic personnel were stationed in Mozambique during 1983, commanding hard currency payments estimated at $25 million annually for their home governments. In addition, about 1,000 Cubans worked in Mozambique on agricultural, medical, and educational projects, governed 25X1
by a series of agreements signed in the mid-1970s 25X1

Ghana. Under Rawlings's leadership, Ghana has stressed state investment in all economic areas, and encouraged the USSR and East European countries to revive aid programs abandoned in the mid-1960s.
Highlights of new commitments are: 25X1

- Bulgarian participation in construction of a truck plant and development of agriculture and transportation.
- Czechoslovak rehabilitation of a sugar refinery, tire factory, tannery, and ceramic facilities as well as construction of a tractor plant and irrigation dams, probably with credits under earlier agreements.
- Hungarian construction of two brick and tile works and expansion of a pharmaceutical factory.
- Soviet reactivation of a prefabricated construction materials plant, construction of a machine-building and power-engineering center, and rehabilitation of a gold refinery, with nearly $10 million in credits, possibly under old agreements.

25X1

Sanitized Copy Approved for Release 2011/01/28 : CIA-RDP85S00315R000300010004-5

In addition, Bulgaria, East Germany, and Hungary have provided emergency assistance valued at less than $1 million, and Cuba has established a joint commission to study development projects. 25X1

Guinea. The USSR's relations with Guinea, its first African aid client, have deteriorated sharply in the 1980s as former President Toure intensified his search for Western trade and investment to revive Guinea's economy. The low level of economic aid and arguments over the price the USSR pays for Guinean bauxite continued to plague the Soviet-Guinean economic relationship. To underline its disappointment with the Soviet program, Guinea expelled 30 Soviet technicians from the Kindia Bauxite Plant in 1982, charging them with inferior performance and smuggling, and cut back on the number of students traveling to the USSR. At present, Guinea's reliance on the Soviets for arms provides the major momentum for the relationship. 25X1

Nigeria. Lagos became the USSR's largest single economic aid recipient in Sub-Saharan Africa in 1979 with a $1.2 billion credit for the Ajaokuta Steel Plant. About 5,300 Soviets were at the project site at the end of 1982, working to complete the first stage of the plant by 1985. Hungary has been the most important East European donor: in 1982, Budapest pledged another $70 million in credits for medical, educational, and agricultural equipment, which brought its credits to Nigeria to more than $190 million. Budapest also offered $150 million for additional projects, but no agreement has been signed. 25X1

Sanitized Copy Approved for Release 2011/01/28 : CIA-RDP85S00315R000300010004-5